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HAMILTON-WENTWORTH REGIONAL OFFICIAL PLAN

MUNICIPAL FINANCE

POLICY PAPER

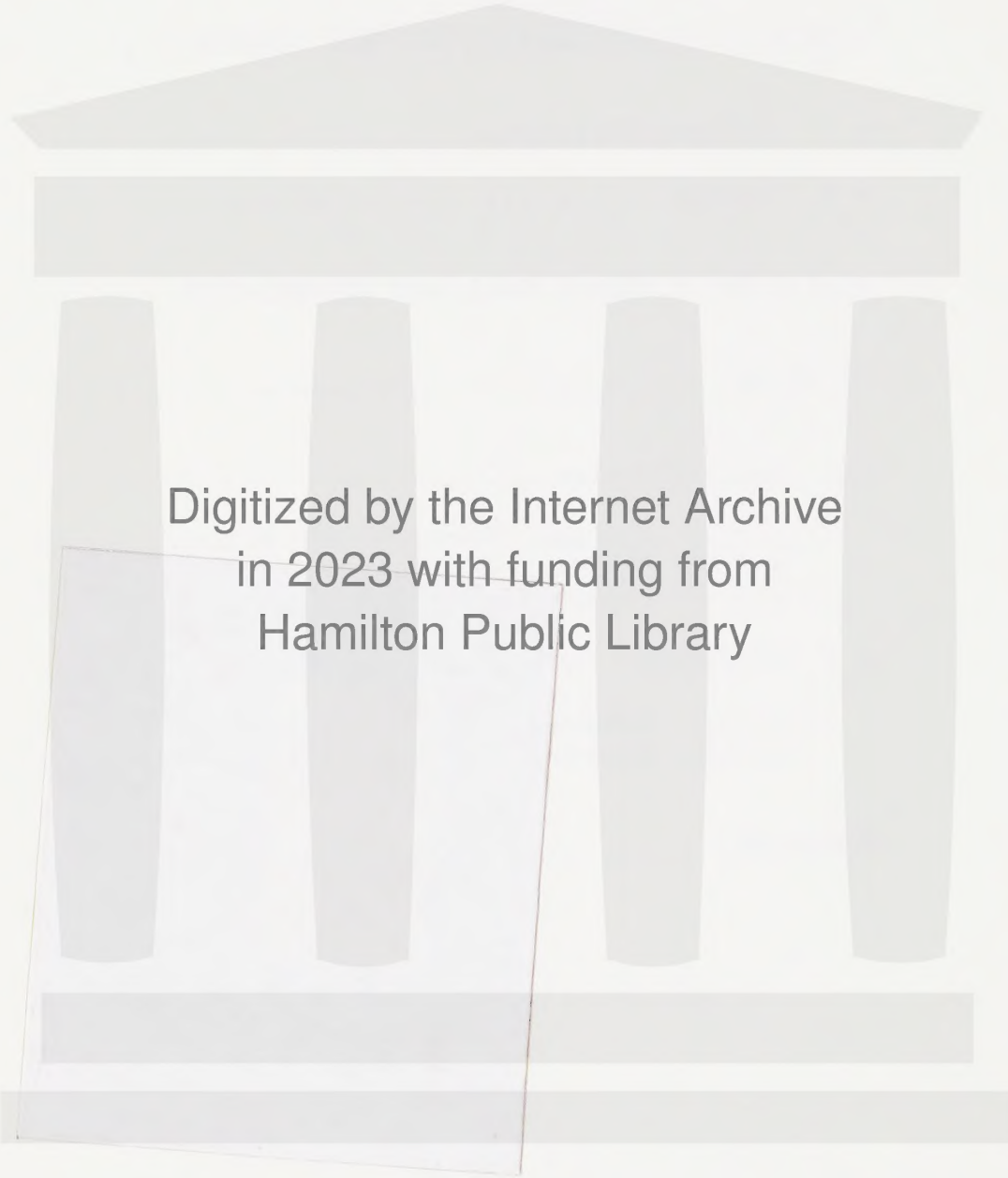
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## 1.0 INTRODUCTION

This chapter provides the policies of the Regional Official Plan that are concerned with municipal finance in the Region. The second section describes the financial intentions of the Provincial Government in establishing regional government, the financial responsibilities of the Region and the issues related to municipal finance. The third section describes the municipal finance goal and principles which provide direction for the development of policies. These policies, which are divided into revenue and expenditure groups, are identified in the fourth section. Finally, programs for further research in municipal finance as related to planning concerns are listed in section five.

## 2.0 REGIONAL RESPONSIBILITIES AND ISSUES IN MUNICIPAL FINANCE

### 2.1 Responsibilities

A major intention of the Province in establishing regional governments was to improve the financial position of municipalities in the rapidly growing and heavily urbanized portion of Ontario. Certain 'regional' services would be more efficiently provided by larger municipal governments and the costs of providing those services would be spread over a much larger and more diversified tax base. Thus the competition among municipalities for attractive tax assessment would be reduced. Furthermore, certain physical services such as sewers and water could be more easily provided by the removal of institutional barriers.

A second intent in establishing regional government which is concerned with municipal finance relates to borrowing money for capital expenditures. With the backing of a large and diversified



tax base, it was argued that, in the long term, the cost of debentures would be significantly lower for Regional Governments than for most of the previous municipalities which had small tax bases and little nonresidential/farm assessment.

In the act which established Hamilton-Wentworth, it is the responsibility of Regional Council to raise monies through property taxation, service charges and levies, the issue of debentures and the acceptance of grants from senior governments to pay for Regional expenses. Except in the instances of storm sewers and local improvement charges, the Region does not have the power to collect taxes directly on property but rather it apportions its requirements for revenues taking into account Provincial grants and other revenues, to the area municipalities according to each municipality's share of total equalized assessment in the Region. In special cases, certain revenue requirements, eg. funding the transit deficit, are apportioned to area municipalities on other bases. Service charges are collected directly by the Region. At present, these charges include a sewer surcharge, which is used to offset the cost of maintaining the sewage works; a water rate, which is used to offset the cost of the water supply system; transit fares, which are used to offset some of the cost of the Regional transit system and lot levies, which are applied to new urban developments in order to offset certain capital costs in servicing new developments.

Conditional and unconditional grants are provided to the Region primarily by the Provincial Government. The levels of these grants are established solely by the Province. The Province has indicated that, in future, the growth in the level of Provincial grants to



municipalities will increase at the same rate as total Provincial revenues.

The Region has the responsibility in Hamilton-Wentworth for issuing debentures for its own purposes or on behalf of area municipalities. Debentures issued for area municipalities are fully paid by those area municipalities. Guidelines for the maximum limits on the level of debt of municipalities have been established by the Ontario Municipal Board. Each year the Ontario Municipal Board establishes capital expenditure quotas which specify the maximum amount of debt that the municipality can incur that year. The Region has established debt policies which are more restrictive than the Ontario Municipal Board policies. Generally, debentures are permitted only for capital facilities, although a municipality may finance all or any portion of its capital facilities out of current revenues.

Expenditures made by the Region are a function of its responsibilities and the level of service which the Region wishes to provide. In many instances, the Province directly or indirectly specifies the type and level of service which the Region must provide. Expenditures must be met by sufficient revenues, although any surplus revenues can be carried forward to the next year.

## 2.2 Issues

The issue of whether or not the Region can afford the preferred development plan or any plan is a crucial question, yet, it is also difficult to answer. To the extent that guidelines have been established (e.g., guidelines for debt levels), we can say that, based on our forecasts, the implementation of the plan will not exceed those guidelines if prudent municipal finance policies are pursued.



Therefore, the Region must address those issues in its financial policies which are its own responsibility. Yet, as will be shown by the following list of issues, only a few issues in municipal finance are solely the responsibility of the Region:

- . Revenue - Provincial Grants - In the recent past most municipalities have avoided dramatic increases in the tax burden borne by the property owner because of rapid increases in grants from the Province. However, restraint programs indicate the Provincial grants to municipalities will not increase as rapidly as they have in the past. Unfortunately, municipalities have virtually no control over this major source of revenue. Furthermore, conditional grants tend to distort the priorities of municipalities.
- . Revenue - Property Taxes - In view of limitations on the growth of Provincial grants, property owners may have to shoulder a higher proportion of municipal revenues. The static nature artificially imposed on assessment has detracted from the property tax base as a source of revenue for municipalities. This issue should be addressed if the Province implements the recommendations of the Commission on the Reform of Property Taxation. However, reform of the property tax base will undoubtedly cause some shifts in the tax burden among the taxpayers of the Region. Although disputes continue regarding the regressive nature of the property tax, there is generally agreement that the property tax is regressive for persons in the lowest income levels. These issues are solely within the Provincial realm of responsibility.



- Revenue - Commercial/Industrial Assessment - Regional Government was instituted in an attempt to minimize the competition among area municipalities for financially attractive assessment. Yet, the competition for this type of assessment continues unabated. Thus, there is a continuing incentive to plan to maximize assessment at the area municipality level rather than planning for the best 'regional' future. Is commercial/industrial assessment financially attractive for municipalities? If so, how can the tax base be reformed so as to minimize intraregional competition for commercially attractive assessment?
- Revenue - Special Charges - With respect to lot levies, how much of the cost of servicing new developments should be fairly borne by developers or by existing taxpayers? With respect to special charges, what proportion of capital charges for special services should be borne by people presently paying the service charges?
- Revenue - Debt - How much of the cost of capital facilities should be borne by future taxpayers (i.e., debentures)? What is a tolerable debt level?
- Expenditures - Shifting Responsibilities Between the Region And Area Municipalities - The Region has assumed a number of responsibilities which were formerly those of the area municipalities. In shifting responsibilities between municipal governments, expenditures should also be shifted without causing a sharp growth in the expenditures of all municipalities in the Region combined. Left unchecked, area municipalities may spend to the levels achieved before Regional Government even though their responsibilities have been reduced.



- Expenditures - Shifting Responsibilities Between The Province and The Region - The Province has indicated that, in the future, some of its responsibilities will be shifted to the Region. Will these shifts in responsibilities be accompanied by adequate shifts in resources to finance these new responsibilities?
- Expenditures - Spending By Bodies Not Accountable to Regional Council - There are a number of bodies and agencies at the municipal level over which Regional Council has little or no direct control on the level of spending. Should these bodies be made more accountable to Regional Council or should attempts be made to indicate to Regional taxpayers the spending of special purpose agencies over which Regional Council has little control?
- Expenditures - Rising Expectations and Government Expenditures - Continuing demands are being placed upon all levels of government to meet the needs of the public. Satisfying the growing expectations of the public most often results in increases in government expenditures. Yet, the growth of government expenditures in excess of the overall growth of the economy has been greatly criticised. Consideration was given to limiting the growth in Regional Government expenditures to the growth in the economy. However, Regional Government is faced with situations where expenditures, such as general welfare assistance, grow as the economy declines. Therefore, such a limit would be nearly impossible to achieve in years of economic hardship.



### 3.0 MUNICIPAL FINANCE GOAL AND PRINCIPLES

#### Goal

It shall be the goal of Regional Council:

- to implement the Official Plan within the limits of sound and responsible financial policies.

#### Principles

Specific principles which provide a further elaboration of the above goal and a framework within which the financial policies of the Region were developed are listed below:

- Ensure that sufficient funds are made available over the planning period to implement the policies of the plan;
- Encourage the maximum use of existing facilities and resources of the municipality;
- Consider new areas of expenditure only when the needs for the new expenditures have been justified and the financial resources are available;
- Promote and encourage the development of financially attractive assessment only where it is consistent with the plan;
- Over the long term, Regional Council will attempt to achieve a 'pay as you go' capital financing policy.

### 4.0 POLICIES

Section 4.1 provides the policies which relate to the programs on which Regional funds are spent while section 4.2 establishes the policies which are concerned with raising the funds to meet the spending programs. The expenditure and revenue categories are further divided into the following policy areas: general, current and capital.



#### 4.1 Expenditure Policies

##### 4.1.1 General Expenditure Policy

Regional Council will:

- a) approve only those current and capital expenditures which conform to the policies and programs identified in this plan;
- b) attempt to minimize the increase in Regional expenditures by controlling cost increases within the responsibility of Regional Council;
- c) approve new programs requiring the expenditure of funds only after:
  - i) the need for the new program has been established;
  - ii) the need cannot be met by the existing facilities or services of any level of government operating within the Region;
  - iii) the new program is within the area of the Region's responsibility;
  - iv) it has been determined that there will be sufficient funds available to finance the program over the long term (5 years or more).
- d) publish annually a summary of the Regional budget to be sent to each property taxpayer in the Region. This summary will include:
  - i) expenditure by major function for the present budget year and the previous year;
  - ii) revenue by major source for the present budget year and the previous year;
  - iii) any explanatory notes deemed necessary, including spending by bodies or agencies not directly accountable to Regional



Council but on whose behalf Council is required to raise funds.

#### 4.1.2 Current Expenditures

Regional Council will:

- a) develop criteria and standards to measure the level and efficiency of services provided by the Region in comparison with other like municipalities;
- b) apply the criteria and standards developed above to Regional services and where the application of the standards indicate that there is an opportunity to improve the delivery of Regional services Regional Council will undertake a review of the services so identified.

#### 4.1.3 Capital Expenditures

Regional Council reaffirms its policy to:

- a) prepare and adopt annually, a five year capital budget identifying all approved capital facilities to be undertaken during the succeeding five years. The budget will include the following:
  - i) a list of individual capital facilities;
  - ii) a statement concerning the need for each facility;
  - iii) estimated cost and timing of the facility;
  - iv) method of financing the facility;
  - v) impact of financing the capital facility on taxes.

No new capital facility will be added nor will the timing of projects in the budget be altered except at the expense of other projects in the budget.

Regional Council will:

- b) prepare a ten year capital facility program which will be integrated with the preparation of the five year capital budget.



## 4.2 Revenues

### 4.2.1 General Revenue Policy

Regional Council will:

- a) encourage and support the Provincial Government in removing the regressive aspects of the property tax through the improvement of such income tax programs as the Property Tax Credit.

The Provincial Government has sought to limit the growth of its transfer payments to municipalities (conditional and unconditional grants) to the growth in its revenue base (the Edmonton commitment). Significant changes in Provincial tax policies could have a noticeable impact on the Provincial monies made available to municipalities.

Therefore, Regional Council will:

- b) request that the Provincial Government, when it significantly alters its revenue base, inform municipalities of the impact that such alterations will have on the growth of transfer payments to municipalities. This information should be provided shortly after the Provincial tax changes are introduced.

Provincial and municipal fiscal years are different, with the Provincial fiscal year being April 1 to March 31 and the municipal fiscal year being January 1 to December 31. Until recently, the amount which municipalities could expect in the form of Provincial grants was not fully known until well after the start of the municipal fiscal year. Regional Council will:

- c) encourage the Provincial Government to continue its recent policy of making the amount of Provincial grants to municipalities known in advance of the municipalities' fiscal year.



- d) encourage the Provincial Government to involve municipalities in the determination and alteration of formulae which establish conditional grants to municipalities.
- e) request that when the Provincial government transfers any Provincial responsibilities to the Region, the transfer be accompanied by sufficient funding sources to pay for the transferred responsibilities.
- f) encourage the Federal government to become more actively involved in the financing of Municipal government programs.

#### 4.2.2 Current and Capital Revenues

Current and capital revenues were combined because a number of revenue sources, particularly special charges, are a composite of current and capital financing.

##### Special Charges:

Regional Council reaffirms its policy that:

- a) Water rates and sewer surcharges be maintained at a level that will permit all expenditures for water and sanitary sewers including capital charges to be met from those rates and those surpluses created by water rates and sewer surcharges be set aside only for water and sanitary sewers respectively;
- b) annual debt charges for water and sanitary sewer purposes will not exceed 45% and 50% of the water and sanitary sewer revenues respectively. Should either of those rates be exceeded, the issuance of debentures for either water or sanitary sewer purposes cease. These annual debt charge levels for water and sewers will be reviewed annually with the ultimate objective of reducing these debt levels to the minimum necessary to sustain the systems.



Regional Council will:

- c) review its lot levy by undertaking a study to determine the Regional cost of providing hard and soft services to areas of new development. Once the study has been completed, Regional Council will then establish a Regional lot levy based on an equitable division of Regional costs of servicing new developments between developers and property taxpayers;
- d) apportion the lot levy to specific Regional services on the basis of cost of providing services to areas of new development;
- e) develop a guideline indicating the proportion of transit costs which should be borne by the users of the Region's transit system through a user charge (transit fare). The establishment of the guidelines should take into consideration the goals of the transit system and senior government subsidies in addition to other financial and social considerations which may be relevant.

Debt:

Regional Council reaffirms its policy to:

- f) request that each area municipality establish policies that will enable it to limit its annual debt charges for local municipal purposes to 20% of the sum of the total local municipal levy (excluding levies for Regional and school purposes) and all local unconditional grants;
- g) limit the Regional annual debt charges for all tax supported services except for water and sewers to 15% of the sum of the Regional general levy and all unconditional grants and not to issue debentures on the Region's behalf for general purposes



when that limit is exceeded. Regional Council will review this debt level annually with the ultimate objective of reducing it to the minimum necessary.

Regional Council will:

- h) request the Provincial government to transfer the responsibility for issuing debentures on behalf of the school boards to Regional Council should the school boards find it necessary to raise debt in the private market. The school boards should be liable for the payment of principle and interest for debentures issued by Regional Council on their behalf.

#### 5.0 PROGRAMS

Several study programs have been identified in the above policies. These include:

- i) measurement of the efficiency of delivery of Regional services on the basis of derived criteria and standards;
- ii) a study of the Regional lot levy;
- iii) development of guidelines regarding the proportion of transit revenue to be derived from transit user charges.

In addition to the above studies, Regional Council will:

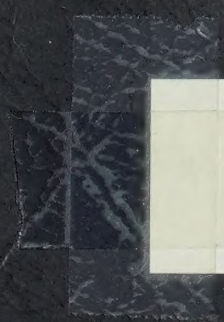
- a) undertake a study of commercial/industrial assessment so as to determine the net financial benefit to the area municipalities, the Region and residential/farm taxpayers of the Region in encouraging additional commercial/industrial assessment;
- b) maintain and utilize a municipal finance model which will assess the long term municipal financial implications of major proposed



developments in the Region and any significant amendments to the Plan.







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